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DATE: September 4, 2014 **ECO Project #:** 21631

TO: Technical and Advisory Committees

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SUBJECT: FINANCING TOOLS FOR ARCH BRIDGE – DISCUSSION DRAFT

The Arch Bridge Master Plan project includes the creation and evaluation of hypothetical development concepts. Recent analysis of these development concepts shows substantial financing gaps for most potential development concepts in the area. To explore ways to fill those gaps, this memo provides a preliminary draft list of potential funding tools for the preferred concept of the Arch Bridge Master Plan. This is not an exhaustive list of all available funding tools, but represents our understanding of the concept thus far and the list of infrastructure projects associated with it. With further due diligence in aligning project types with potential incentives, this list will likely change and become more targeted. Going forward, we will refine the preferred concept with the Technical and Advisory Committees, work with them to evaluate the tools based on the criteria suggested below, and identify other potential resources.

Subsequent tasks on this project include creating an Action and Implementation Plan, which will identify specific steps the City can take to overcome these financing gaps and achieve successful development in the study area. We will be looking for input from both committees on which of these tools merit further consideration for potential inclusion in the implementation chapter. We suggest that the City and the Technical and Advisory Committees use the following criteria when evaluating these tools:

1. **Economic feasibility.** This category covers everything related to creating and maintaining net revenues. We break efficiency into four subcategories: (1) revenue-generating capacity, (2) administrative costs, (3) revenue stability, and (4) revenue flexibility:
    a. **Revenue-generating capacity** considers how much money the source can generate.
    b. **Administrative cost** considers the portion of gross revenues that will be spent on administration. The easier it is to administer the tax or fee, the more of the gross revenue collected that will be available as net revenue for transportation projects and programs in the corridor.
    c. **Revenue stability and predictability** considers whether the source is likely to avoid large fluctuations each year and whether the source is likely to be close to the forecasts analysts might make.
    d. **Revenue flexibility** considers limitations on the types of projects that can be funded with a given source. A funding source may be a little less useful to jurisdictions if its use is limited to certain types of projects.

2. **Political acceptability.** Will stakeholders accept or support the tool? Political acceptability considers whether elected officials and the public at large are likely to support the funding source. This depends to a large extent on the issues above: if a revenue source is legal, efficient, and fair, then it should get political support from the public, advisory groups, and decision makers. Ultimately, for this analysis, we evaluate whether a source is politically acceptable using two approaches: (1) is the source widely used elsewhere in Oregon? And (2) does the source collect revenue mostly from non-locals (as opposed to local residents)?
3. **Fairness.** Fairness, also referred to as equity, can be defined in many ways. In the context of transportation funding, the key question related to fairness is "who pays?" A standard definition of fairness in public finance is that the charges that fund the transportation system are tied to the users who receive benefits from (or impose costs on) the transportation system.
4. **Legality.** An essential part of an assessment of the ease of implementing a funding source is determining the legality of the source. If the source is currently prohibited by State statute, then there is a very big administrative hurdle to be surmounted up front. All the benefits of a funding source are moot if the source is not legal or cannot become legal within the desired timeframe.

Using the above criteria, ECONorthwest narrowed the range of potential funding tools to a list summarized in Exhibit 1 with more detail provided later in this memorandum. The tools outlined below are grouped into the following funding categories:

5. Local Financing – Development Driven
6. Local Financing – Publicly Generated
7. Tax Abatements and Credits
8. Low Interest Loans, Subsidies, and Grants
9. Other Incentives

Exhibit 1 shows the tools that could be used for different priority projects, based on our initial evaluation. Some tools (including urban renewal and Local Improvement Districts) require a significant amount of preparatory work with stakeholders and a feasibility study. This table is

Exhibit 1. Funding Tools Suitability by Priority Project

	Local Financing, Dev't Driven				Local Financing Publicly Generated		Tax Credits/ Abatements						Loans, Grants and Land			
	Urban Renewal	Local Improvement District	SDC Credits	Sole-Source SDCs	GO Bond / General Fund	Fees or Other Revenue	Vertical Housing Tax Abatement	Multi-family tax exemption	Affordable Housing Tax Abatement	Oregon Afford. Hsg Tax Credits	Federal LIHTC	Historic Pres. Tax Credit	EB-5	Land Disposition	State Transp. Grants/Loans	Other Incentives
Catalyst Development																
Market-rate housing	X		X				X	X					X	X		X
Affordable Housing	X		X				X	X	X	X	X	X	X	X		X
Retail	X											X	X	X		X
Hotel	X											X	X	X		X
Infra./Amenities																
District parking garage on the mill site	X	X		X	X	X							X	X	X	
Broadway Park	X	X		X	X	X							?	X	X	
Park under I-205 and trail	X	X		X	X	X							?	X	X	
Intersection improvements/ underground utilities	X	X		X	X	X							?			
Willamette Drive streetscape, north of I-205	X	X		X	X	X							?			
Property Mgmt																
Acquisition: gas station	X				X	X								X		
Disposition: city-owned parcels (Broadway ROW, Willamette Dr and Broadway, Old Fire Station)	X		X			X								X		

The following section details how each tool works, the funding sources impacted, and the benefits and drawbacks for each tool in the above diagram.

Local Financing – Private

Urban Renewal

How It Works

Tax increment finance revenues are generated by the increase in total assessed value in an urban renewal district from the time the district is first established. The governing body, usually acting on the recommendation of an Technical and Advisory Commitees, creates an urban renewal district with specific boundaries and identifies improvements to be funded within the district. Bonds may be issued to fund improvements. As property values increase in the district, the increase in total property taxes (i.e., city, county, school portions) is used to pay off the bonds. When the bonds are paid off the entire valuation is returned to the general property tax rolls.

Urban renewal funds can be invested in the form of low interest loans and/or grants for a variety of capital investments:

- Redevelopment projects, such as mixed-use or infill housing developments.
- Economic development strategies, such as capital improvement loans for small or start up businesses which can be linked to family-wage jobs
- Streetscape improvements, including new lighting, trees and sidewalks
- Land assembly for public as well as private re-use
- Transportation enhancements, including intersection improvements
- Historic preservation projects
- Parks and open spaces

Fund Sources

Local taxing jurisdictions' permanent rate property tax impacts

Benefits

- Over the long term (most districts are established for a period of 20 or more years), the district could produce significant revenues for capital projects.
- TIF can be used to help pay for infrastructure improvements (including parking garages), provide loans/grants for adaptive re-use and new development
- Among the most flexible incentives
- Option exists to have a single project based TIF district

Drawbacks

- Defers property tax accumulation by the city and county until the urban renewal district expires or pays off bonds.
- Due to the sometimes slow or indirect nature of property tax growth in relation to targeted projects, urban renewal can often take five or more years to produce meaningful levels of revenue resulting in loss of project alignment.
- Complex process requires extensive public involvement and community support, especially from other taxing jurisdictions. The City would need to explore options with county officials and elected leadership, tracking legislative changes in urban renewal law, and meeting with adjacent jurisdictions and overlapping taxing entities.
- Use of urban renewal can be politically contentious because of its impact on funds available to overlapping taxing districts, including the perception that the school districts are impacted.
- Investing over $750,000 in TIF directly into a new or rehab private project triggers prevailing wage requirements which can increase overall project costs by 10 – 20%

Local Improvement District

How It Works	A special assessment district where property owners are assessed a fee to pay for capital improvements, such as streetscape enhancements, underground utilities, or shared open space. LIDs must be supported by a majority of affected property owners.
Fund Sources	LID bonds are backed by revenue committed by property owners (which can be public as well as private)
Benefits	• Organizes property owners around a common goal. • Allows property owners to make payments over time to bring about improvements quickly that benefit them individually.. • Improvements within smaller areas can enhance catalytic and redevelopment value of area • LIDs can be bundled with other resources such as TIF
Drawbacks	• Setting up fair LID payments for various property owners which are located different distances from the improvement is challenging • Some lenders insist that LIDs be paid off when properties are transferred • Small geographic areas may not have sufficient LID revenues to support bonds for desired improvement

SDC Financing or Credits

How It Works	SDC financing enables developers to stretch their SDC payment over time, thereby reducing upfront costs. Alternately, credits allow developers to make necessary improvements to the site in lieu of paying SDCs. Note that the City can control its own SDCS, but often small cities manage SDCs on behalf of other jurisdictions including the County and special districts.
Fund Sources	SDC fund / general fund. In some cases, there may be no financial impact.
Benefits	• Reduced up-front costs for developers can enable quicker development timeframe and availability of property to be taxed.
Drawbacks	• Reduces availability of SDC funds over the short term.

Sole Source Systems Development Charges

How It Works	Retains SDCs paid by developers within a limited geographic area that directly benefits from new development, rather than being available for use city-wide.
Fund Sources	SDC funds
Benefits	• Enables SDC eligible improvements within the area that generates those funds to keep them for these improvements • Improvements within smaller areas which can enhance catalytic and redevelopment value of area • Can be blended with other resources such as LIDs and TIF
Drawbacks	• Reduces resources for SDC-funded projects in a broader geography

Local Financing - Public

General Fund and General Obligation Bonds

How It Works	City can use general funds monies on hand or can issue bonds backed by the full faith and credit of the city to pay for desired public improvements.
Fund Sources	Property taxes are increased to pay back the GO bonds
Benefits	• Community can implement public projects that can in turn catalyze other development (e.g. parking garage, transportation improvements…) • West L currently has low city tax rate
Drawbacks	• Requires public vote • Takes time and money to run campaign for public vote • Raises property owner taxes • Lending of Credit provision prohibits City from contributing to private sector projects

Fees or Other Dedicated Revenue

How It Works	Many cities have collect user fees for services that they direct into enterprise funds that provide dedicated revenue to fund specific projects. Examples of those types of funds can include parking revenue funds, stormwater/sewer fees, street fees, etc. The City could also use a this program to raise private sector funds for a district parking garage. The City could facilitate a program allowing developers to pay fees-in-lieu or "parking credits" that developers would purchase from the City for access "entitlement" into the shared supply. The shared supply could both meet initial parking need when the development comes on-line but maintain the flexibility to adjust to parking need over time as elasticity in the demand patterns develop in the district and influences like alternative modes are accounted for.
Fund Sources	Residents and businesses
Benefits	• Allows for new revenue streams into the City. • Many developers support fee-in-lieu programs if they allow them to receive the same parking allocation for less money than it would cost to build and manage the space.
Drawbacks	• Political challenges of introducing new fees or increasing existing fees that are directed toward specific funding objectives, unless those objectives are widely supported.

Tax Credits and Abatements

We narrowed the list of tax credits and abatements to ones that can be used for market rate apartments, affordable housing, and mixed use where housing is above active ground floor uses.

Vertical Housing Tax Abatement (State of Oregon enabled, locally adopted)

How It Works	Subsidizes "mixed-use" projects to encourage dense development or redevelopment by providing a partial property tax exemption on increased property value for qualified developments. The exemption varies in accordance with the number of residential floors on a mixed-use project with a maximum property tax exemption of 80 percent over 10 years. An additional property tax exemption on the land may be given if some or all of the residential housing is for low-income persons (80 percent of area median income or below). The proposed zone must meet at least one of the following criteria: • Completely within the core area of an urban center • Entirely within half-mile radius of existing/planned light rail station • Entirely within one-quarter mile of fixed-route transit service (including a bus line) • Contains property for which land-use comprehensive plan and implementing ordinances effectively allow “mixed-use” with residential State program webpage: http://www.oregon.gov/OHCS/Pages/HFS_Vertical_Housing_Program.aspx
Fund Sources	Local taxing jurisdictions’ general funds that agree to participate–cities, school districts, counties, etc.
Benefits	• Targeted tool to support mixed-use development in places with locational advantages • City-controlled on project by project basis
Drawbacks	• Reduces general fund revenues for all overlapping taxing districts. • Requires a lengthy approval process with taxing districts.

Multiple-Unit Limited Tax Exemption Program (Locally managed)

How It Works	Multi-unit projects receive a ten-year property tax exemption on structural improvements to the property as long as program requirements are met. There is no ground floor active use requirement for this tool. The City of Portland’s program, for example, limits the number of exemptions approved annually, requires developers to apply through a competitive process, and encourages projects to provide greater public benefits to the community. This program is enabled by the state but managed by the local jurisdiction.
Fund Sources	Local taxing jurisdictions’ general funds that agree to participate–cities, school districts, counties, etc.
Benefits	• Targeted tool to support mixed-use development in places with locational advantages • City-controlled on project by project basis
Drawbacks	• Requires a lengthy approval process with taxing districts. • Reduces general fund revenues for all overlapping taxing districts.
Drawbacks	• Reduces general fund revenues for all overlapping taxing districts if property tax abatement is sought by affordable housing providers and approved by local jurisdictions. • Highly competitive process.

Affordable Housing Property Tax Abatement (Locally managed, enabled by State of Oregon)

How It Works	Since 1985, the State has allowed for affordable housing property tax abatements which are sought separately by non profits that develop and operate affordable rental housing. Only the residential portion of a property located within a City which is used to house very low-income people or space that is used directly in providing housing for its low-income residents is eligible for a property tax exemption.
Fund Sources	Local taxing jurisdictions’ general funds–cities, school districts, counties, etc.
Benefits	• Targeted tool to support multi-family rentals or mixed-use development in places with locational advantages • The affordable housing tax abatement can stand alone (without tax credits). For example, if a non-profit housing provider were to use bonds, it could still be eligible for an abatement, but it must apply for them separately. • Can be blended with other resources such as TIF, tax credits, housing bonds
Drawbacks	• Reduces general fund revenues for all overlapping taxing districts if property tax abatement is sought by affordable housing providers and approved by local jurisdictions.

Affordable Housing Tax Credit (OAHTC) (State of Oregon)

How It Works	Provides a state income tax credit for affordable housing equity investments that help reduce the financing costs for multi family rental units. Applications must demonstrate a 20 year term that the benefit of the tax credit will be entirely passed on to reduce rents for the tenants. Program webpage: http://www.oregon.gov/ohcs/pages/hrs_oahtc_program.aspx
Fund Sources	Institutional investors or high net worth individuals makes investments. State general fund is impacted
Benefits	• Targeted tool to support multi-family rentals or mixed-use development in places with locational advantages • The credit contributes to project equity, reducing developer's out-of-pocket investment and can be a significant incentive for the provision of affordable housing
Drawbacks	• The state allows for affordable housing property tax abatements. These are applied for sepr • Highly competitive process.

Low Income Housing Tax Credit (Federal program, administered by State of Oregon)

How It Works	Provides a state income tax credit for affordable housing equity investments that help reduce the financing costs for multi-family rental units. Applications must demonstrate that the project will be maintained as affordable housing for a minimum 30-year term. To be eligible, at least 20% of units must be at or below 50% or AMI, OR 40% must be at or below 60% AMI. There are two rates: • **The "9 percent" credit rate.** New construction and substantial rehabilitation projects that are NOT otherwise subsidized by the Federal government earn credits at a rate of approximately 9 percent of qualified basis, each year for a 10-year period. "9 percent" credits are more powerful but also more competitive. • **The "4 percent" credit rate.** The 4 percent rate applies to acquisition of eligible, existing buildings and to Federally subsidized new construction or rehabilitation. The 4 percent rate also applies to all eligible basis in projects that are financed through the issuance of volume-cap multi-family tax-exempt bonds (the associated LIHTCs are sometimes called 'as of right' credits because they are automatically attached to the volume-cap bonds). State program webpage: http://www.oregon.gov/OHCS/Pages/HRS_LIHTC_Program.aspx
Fund Sources	Institutional investors or high net worth individuals makes investments by purchasing the tax credits, which infuses cash equity that does not require repayment into a project. Income tax receipts are impacted because investors' income tax payments are reduced.
Benefits	• Targeted tool to support multi-family rentals or mixed-use development in places with locational advantages • The credit contributes to project equity, reducing developer's out-of-pocket investment and can be a significant incentive (particularly at the 9% level) for the provision of affordable housing • Can be blended with other resources such as TIF, property tax abatement, housing bonds

Historic Preservation Tax Credit (State of Oregon)

How It Works	Encourages private sector rehabilitation of income-producing historic buildings. The program allows a 20% tax credit for allowable rehabilitation of certified historic structures. It also allows a 10% tax credit for rehabilitation of non-historic, non-residential buildings built before 1936. The rehabilitation must be substantial and must involve a depreciable building. Tax credits provide inexpensive equity for eligible projects. State program webpage: http://www.oregon.gov/oprd/HCD/SHPO/pages/tax.aspx
Fund Sources	Private and institutional investors/federal government
Benefits	• The 10% tax credit is available for the qualified rehabilitation of non-historic buildings placed in service before 1936. • HTC's are effective equity in projects. • Can be bundled with historic property tax freeze and other tax credits to significantly reduce rehab costs of historic buildings for adaptive re-use
Drawbacks	• Long designation and certification process. • Buildings must be rehabilitated for commercial uses and can include apartments. • An owner that is allocated the tax credits must remain in title for at least five years after the project is placed in service. • Potential pitfalls involving the allocation of the tax credits by the investor party. • Only applicable to historic buildings.

Low-interest Loans, Grants, and Land Disposition

EB-5

How It Works	Attracts investment dollars for new commercial enterprises that will benefit the US economy primarily by creating new jobs for US citizens. There are two versions of the program: 1) the original program that requires foreign investor to commit $1 million for eligible projects that create at least 10 full-time direct jobs, and 2) the newer program that allows foreign investors to commit $500,000 in eligible projects within Targeted Employment Areas that create at least 10 direct and/or indirect jobs. In return for these investments, foreigners seek US citizenship.
Fund Sources	Foreign investors
Benefits	• Relatively low-cost source of equity for appropriate projects. • Projects can be construction (new or rehabilitation), or direct investments into businesses that will create required jobs. • EB5 can be bundled with many other funding sources such as TIF • Among the most commonly sought after projects are hotels and senior housing since both generate considerable jobs
Drawbacks	• $500,000 program investor projects must be in an EB-5 eligible "targeted employment area" or TEA. TEAs are areas that have unemployment rates in excess of 150% of the federal rate for a given year. TEAs are established and adjusted by the governors of each state. • Must meet job generation requirements within 2.5 years. • Investors expect to get their equity investment repaid at the end of five years. • It takes added time to secure EB5 funds due to federally required process

Public Land Disposition

How It Works	The public sector sometimes controls land that has been acquired with resources that enable it to dispose of that land for private and/or nonprofit redevelopment. Land acquired with funding sources such as tax increment, EB5, or through federal resources such as CDBG or HUD Section 108 can be sold or leased at below market rates for various projects to help achieve redevelopment objectives.
Fund Sources	Tax Increment, CDBG/HUD 108, EB-5
Benefits	• Increases development feasibility by reducing development costs. • Gives the public sector leverage to achieve its goals for the development via development agreement process with developer.
Drawbacks	• Public agencies sometimes buy land at the appraised value because they want to achieve multiple goals – which can impact costs of future public and private acquisitions. • Requires careful underwriting and program administration to reduce public sector risk and ensure program compliance

Transportation Loans and Grants

How It Works	ODOT administers several grant programs that help to pay for pedestrian and bicycle improvements, including crosswalks, bike lane striping, and pedestrian crossing islands. Local governments must often match grant funding. These programs include: • **ConnectOregon**. ConnectOregon focuses on improving connections and supporting local economies throughout the state. Dedicated to non-highway projects, ConnectOregon was first approved by the Oregon legislature in 2005 and has funded more than 130 marine/ports, aviation, public transit, and rail projects around the state. For ConnectOregon V, bicycle/pedestrian projects were also eligible to compete for funds. State program webpage: http://www.oregon.gov/ODOT/TD/TP/pages/connector.aspx • **Statewide Transportation Enhancements Program.** The Statewide Transportation Improvement Program, known as the STIP, is Oregon's four-year transportation capital improvement program. It is the document that identifies the funding for, and scheduling of, transportation projects and programs. STIP will be divided into two broad categories: Fix-It and Enhance. State program webpage: http://www.oregon.gov/ODOT/TD/STIP/Pages/about.aspx • **Oregon Transportation Infrastructure Bank.** The Bank is a low-interest revolving loan fund that can help to pay for transportation capital projects. These low-interest loans can be repaid with TIF, general fund, or local improvement district revenues. They provide up front monies (planning, enegineering) as well as implementation funds which means cities don't need to wait for TIF build up. Need to make sure there will be a city repayment source. State program webpage: http://www.oregon.gov/ODOT/CS/FS/pages/otib.aspx
Fund Sources	State and federal funds
Benefits	• Direct public investment into private projects. • Does not impact City funds.
Drawbacks	• Highly competitive and must meet state-identified criteria (varies by program) • For loans, need to establish a City repayment source

Other Incentives

10. **Reduced/waived building permit/planning fees**. These programs reduce various development fees as an incentive to induce qualifying types of development or building features. This can increase development feasibility by reducing soft costs for developers. Fee cost structures are within City control and can be easier to manipulate than other components of the development cost structure.

11. **Fast-track building permits.** The City can opt to expedite building permits for pre-approved development types or green buildings. They can be targeted to a specific

development type or areas, which can save projects time in development process and produce financial savings.

12. **Predevelopment assistance.** Grants or low interest loans for pre-development (evaluation of site constraints and opportunities, development feasibility, conceptual planning, etc.) can reduce pre-development costs for developers. This can reduce what are often risky pre- development costs for developments that fulfill community goals. For Arch Bridge, it could enables developers and communities to explore wider range of project possibilities, particularly those that can meet more community as well as private sector objectives.